

STATE OF VERMONT
PUBLIC SERVICE BOARD

Docket No. 7642

Petition of Swanton Village, Inc., Electric)
Department pursuant to 30 V.S.A. § 108(c) for)
approval to issue up to \$1.4 Million in tax-)
exempt bonds to support the installation of a)
minimum flow generator at its Highgate hydro)
facility)

Order entered: 9/14/2010

I. INTRODUCTION

On June 2, 2010, Swanton Village, Inc., Electric Department ("Swanton") filed a petition (the "Petition") with the Vermont Public Service Board ("Board") for approval pursuant to 30 V.S.A. §108(c) to issue tax-exempt long-term debt securities through the Vermont Municipal Bond Bank ("Bond Bank") in a maximum aggregate offering amount of up to \$1.4 million (the "Bonds") to support the purchase and installation of a 710 kW minimum-flow generator at the Orman E. Croft hydroelectric generation facility in Highgate Center, Vermont (the "Project"). Because the Bond Bank typically issues bonds only once a year in July, and Board and voter approval were unlikely in time for the 2010 issuance, Swanton also requests approval of the issuance of a short-term bond anticipation note ("BAN") in the same amount to provide interim funding for the Project until the issuance of the Bonds by the Bond Bank in July 2011. The Petition was supported by the testimony of Lynn Paradis, Swanton's Assistant Manager/Controller and by accompanying exhibits.

On July 28, 2010, the Clerk of the Board issued a letter informing Swanton that additional financial information in the form of Swanton's audited financial statements for fiscal years 2008 and 2009 was needed in order to complete the review of the Petition.

On August 6, 2010, Swanton filed the additional financial information.

On August 6, 2010, the Department of Public Service ("DPS") filed its Determination Under 30 V.S.A. § 202(f) with the Board recommending that the Board approve the Petition

without hearing and finding that the issuance of long-term debt as set forth in the Petition is consistent with the *Vermont Electric Plan* pursuant to 30 V.S.A. § 202(f).

In a separate filing submitted on August 9, 2010, the DPS informed the Board that it believes that the issuance of long-term debt as set forth in the Petition is consistent with the general good of the state, and recommends approval of the Petition on the condition that Swanton submit an updated Net Present Value ("NPV") calculation for the Project. On August 11, 2010, the DPS filed a follow-up letter to its August 9 filing stating that it recommends approval of the Petition without a hearing.

On August 19, 2010, the Clerk of the Board issued a letter informing Swanton that additional information was needed to explain a significant decline in Swanton's net assets for fiscal year 2009.

On August 20, 2010, Swanton filed its updated NPV calculation for the Project which included the Amended Prefiled Testimony of Lynn Paradis and a new exhibit.

On August 27, 2010, Swanton filed additional information in the form of Supplemental Prefiled Testimony of Lynn Paradis, in response to the Clerk's August 19 letter.

I have reviewed the Petition, the supporting testimony, accompanying documents, and supplemental filings. I conclude that approval of Swanton's Petition pursuant to 30 V.S.A. § 108(c) is appropriate and that such approval may occur without hearing. Based upon the evidence of record, including the DPS letters of August 6, 9, and 11, 2010, I hereby report the following findings and conclusion to the Board in accordance with 30 V.S.A. § 8.

II. FINDINGS

1. Swanton is a company as defined by 30 V.S.A. § 201, and is subject to the jurisdiction of the Board pursuant to 30 V.S.A. §§ 108 and 203. Swanton is also a duly organized municipal electric utility under 30 V.S.A. Chapter 79. Petition at 1.

2. Swanton intends to purchase and install an Ossberger minimum-flow generator at its Orman E. Croft hydroelectric generation facility located in Highgate Center, Vermont. The generator is a 710 kW unit that will produce approximately 100 kW at minimum flows and about 600 kW at maximum flows. The total authorized capacity of the Highgate facility would

increase from 10,800 kW to 11,510 kW. Swanton received authorization for the Project from the Federal Energy Regulatory Commission ("FERC") on March 2, 2010. Paradis pf. at 3; exh. Swanton-Paradis-2.

3. Swanton requests Board approval to finance the Project through the issuance of up to \$1.4 million of tax-exempt revenue bonds through the Vermont Municipal Bond Bank. The Bonds will be issued through the Bond Bank in order to capitalize on lower interest rates available as a result of pooling with other Vermont municipalities. Because the Bond Bank typically issues bonds only once a year in July, it is unrealistic to expect that Swanton could receive Board and voter approval in time for the 2010 issuance. Therefore, Swanton also seeks approval of interim short-term financing in the form of a BAN in the same amount to fund and complete the Project in 2010. Paradis pf. at 4-5.

4. Swanton estimates that the tax-exempt interest rate will be in the range of 3.5% to 4.5% for twenty-year bonds. Because the issuance will not occur until July 2011, and the markets are likely to change, Swanton requests approval to issue the Bonds (and the BAN) with an interest rate of up to 4.75%. Paradis pf. at 5.

5. The Project is estimated to cost approximately \$1.3 million, and according to analysis performed by the Vermont Public Power Supply Authority ("VPPSA"), the Project will have a net present value of \$2,445,768.¹ Although the estimated cost is \$1.3 million, Swanton requests approval to issue the Bonds in an amount of up to \$1.4 million to cover any unforeseen additional costs associated with the Project. Paradis amend. pf. at 4-5; exh. Swanton-Paradis-1A.

6. Upon Board approval of the Petition, Swanton plans to immediately warn a special meeting for voter approval of the proposed financing. If the vote is successful, Swanton will issue the BAN soon thereafter. Paradis pf. at 5.

7. Pursuant to Section 5(H) of the Power Sales Agreement ("PSA") between VPPSA and Swanton for output from the Swanton Peaking Generation Project ("Project 10"), Swanton is obligated to notify the Board in any Section 108(c) proceeding of the existence of Swanton's

1. In the Petition, VPPSA had originally calculated the NPV for the Project to be \$2,269,808. Based on subsequent discussions between the DPS and Swanton, Swanton requested that VPPSA update its NPV calculation, which was provided to the Board and the DPS in Swanton's supplemental filing of August 20, 2010.

obligations that are set forth in the PSA with respect to repayment of principal, premium, and interest on any bonds or notes issued to support Project 10. Specifically, Swanton agreed to fix, revise and collect rates at least sufficient to provide revenues adequate to meet its obligations under the PSA and to pay all other amounts payable from or constituting a charge and lien upon its revenues. In addition, Swanton agreed that payments to VPPSA under the PSA are absolute and unconditional, and such payments shall be made whether or not Project 10 is completed or operational. The PSA and VPPSA's revenues under the PSA, in conjunction with all other Project 10 PSAs, are the security for the Project 10 bonds. Paradis pf. at 6; exh. Swanton-Paradis-3.

8. Swanton's financial statements for fiscal year 2009 reveal a significant decline in net assets of -\$961,720 from 2008 due largely to an increase in Purchased Power costs of \$897,504 as a result of below-average internal generation from its hydro-electric facilities in 2009. Other cost factors included a write-off of uncollectable accounts in the amount of \$72,857 and an increase of \$5,449 in tree trimming costs. Swanton anticipates that increases in Purchase Power costs will carryover into 2010 (currently budgeted to increase by \$559,000 over 2009) as a result of recent revisions made by the Independent System Operator New England, Inc. ("ISO-NE") in the way it calculates Locational Marginal Prices for hydro-electric capacity resulting in a lower price for Swanton's internal generation. Swanton expects that the proposed Project will put downward pressure on future Purchase Power cost increases. In addition, Swanton is exploring the purchase of power from Hydro-Quebec. Swanton is also anticipating that it will file with the Board a request for a rate increase in September which would bring in additional revenue. Paradis supp. pf. at 2-3; exh. Swanton-Paradis-Supp-1; Village of Swanton, Basic Financial Statements as of December 31, 2009, at 6.

III. DISCUSSION & CONCLUSION

Based upon the findings and the evidence in the record, I find that Swanton's proposed issuance of long-term debt securities as described above will be consistent with the general good of the State. I therefore recommend that the Board approve the Company's request to issue up to \$1.4 million in tax-exempt long-term debt securities through the Bond Bank, and approve the

issuance of a short-term BAN in the same amount to provide interim funding for the Project until the issuance of the Bonds by the Bond Bank in July 2011.

The parties have waived the opportunity for review of the Proposal for Decision, briefing, and oral argument, in accordance with 3 V.S.A. § 811.

Dated at Montpelier, Vermont this 3rd day of September, 2010.

s/ Jay E. Dudley

Jay E. Dudley
Hearing Officer

IV. ORDER

IT IS HEREBY ORDERED, ADJUDGED AND DECREED by the Public Service Board ("Board") of the State of Vermont that:

1. The findings, conclusion and recommendation of the Hearing Officer are adopted.
2. The Board consents to the issuance by Swanton Village, Inc., Electric Department ("Swanton") of tax-exempt long-term debt securities in a maximum aggregate offering amount up to \$1.4 million (the "Bonds") through the Vermont Municipal Bond Bank ("Bond Bank") as set forth in the findings, above. In the interim leading up to the issuance of the Bonds by the Bond Bank in July 2011, the Board consents to the issuance by Swanton of a short-term bond anticipation note ("BAN") in the same amount to provide interim funding for the Project.
3. Swanton shall not accept, without prior Board approval, an interest rate for the issuance of the Bonds, or the BAN, of greater than 4.75%.
4. This Order does not constitute approval of any particular capital or operating expenditure nor the underlying capital structure that Swanton may implement with the proceeds from this issuance of long-term debt. Nothing in this approval shall preclude the Vermont Department of Public Service ("DPS") or any other party, or the Board, from reviewing or challenging those expenditures and/or the resulting capital structure in any future proceeding.
5. Swanton shall inform the Board and the DPS of any material change in the terms and conditions of the financing, if any, prior to closing.
6. Swanton shall provide the Board and the DPS with a complete set of final executed documents.

Dated at Montpelier, Vermont this 14th day of September, 2010.

<u>s/ James Volz</u>)	
)	PUBLIC SERVICE
)	
<u>s/ David C. Coen</u>)	BOARD
)	
)	OF VERMONT
<u>s/ John D. Burke</u>)	

OFFICE OF THE CLERK

FILED: September 14, 2010

ATTEST: s/ Susan M. Hudson
Clerk of the Board

Notice to Readers: This decision is subject to revision of technical errors. Readers are requested to notify the Clerk of the Board (by e-mail, telephone, or in writing) of any apparent errors, in order that any necessary corrections may be made. (E-mail address: psb.clerk@state.vt.us)

Appeal of this decision to the Supreme Court of Vermont must be filed with the Clerk of the Board within thirty days. Appeal will not stay the effect of this Order, absent further Order by this Board or appropriate action by the Supreme Court of Vermont. Motions for reconsideration or stay, if any, must be filed with the Clerk of the Board within ten days of the date of this decision and order.